

## MEMORANDUM

TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

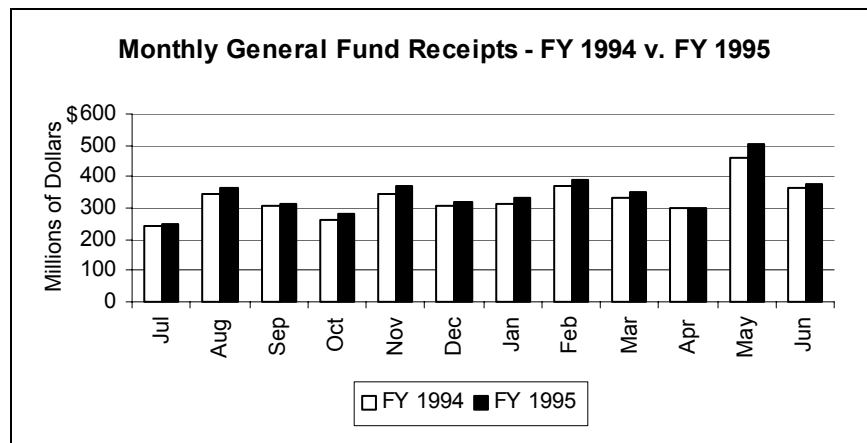
FROM: Dennis C. Prouty

DATE: July 3, 1995

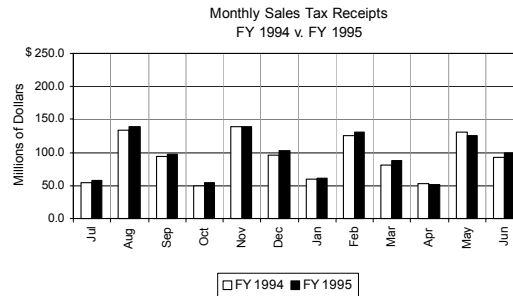
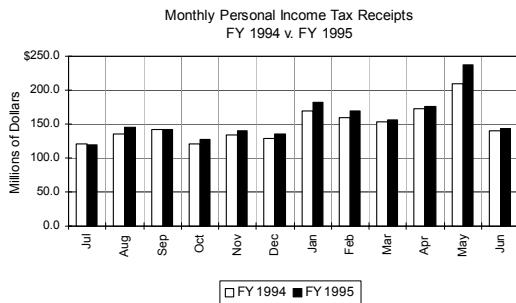
### General Fund Receipts Through June 30, 1995

The attached spreadsheet represents total FY 1995 General Fund receipts, with comparable figures for FY 1994. These can also be compared to the last FY 1995 estimate (\$4.119 billion) that was set by the Revenue Estimating Conference (REC) on April 7, 1995.

The REC will meet on July 10 to review the current FY 1996 revenue estimate. The December estimate for FY 1996 was increased \$8.5 million (0.2%) to \$4.259 billion at the April meeting, and refunds were adjusted downward. Receipts net of refunds increased \$25.5 million (0.7%) over the December estimate. This estimate reflects an adjustment in the withholding tables recently undertaken by the Department of Revenue and Finance. The July Conference will also make adjustments due to various bills signed into law by the Governor since the April meeting.



Total year-to-date General Fund receipts for FY 1995 increased 5.7% over FY 1994. Special taxes showed an increase of 5.3% for the fiscal year. Personal income tax receipts increased 5.0%. Sales tax receipts were 3.3% higher than the previous fiscal year. Use tax increased 12.0% over FY 1994, and corporate income tax receipts showed a 21.7% increase. Total General Fund receipts for the month of June were 2.8% higher than June 1994.



Personal income tax receipts for June were 2.3% higher than June 1994. Total FY 1995 personal income tax receipts exceeded the REC estimate 1.0 percentage point, largely due to the strength of pay returns. Pay returns for the return processing period that ended in May were approximately 18.1% higher than the same period a year ago. Recent reports suggest that the federal pay returns are experiencing the same trend. Withholding receipts grew 8.3% in June, which countered a 28.4% drop in the month's estimate payments.

The strong FY 1995 growth in personal income tax receipts has been offset by a decline in sales tax receipts. Although sales tax receipts for June were 6.4% higher than June 1994, they fell short of the REC estimate by \$11.2 million. Sales tax and personal income tax receipts combined, however, exceeded the REC estimate by \$7.9 million. Together, sales tax and personal income tax accounted for 79.1% of total special taxes, which is virtually unchanged from FY 1994.

Corporate income tax receipts remained strong. For June, receipts were 16.9% higher than June 1994.

Final franchise tax receipts were 15.1% lower than FY 1994. Receipts in May were 46.2% lower than May 1994, and June's receipts were 25.6% lower than June 1994. Although the April REC revised the franchise tax estimate downward \$1.5 million, largely due to increasing usage of investment subsidiaries, it appears that the effect of the tax avoidance measures have exceeded REC expectations. On May 26 the Governor signed SF 478, which is an attempt to curtail the use of investment subsidiaries. The Act did not have any effect on FY 1995 receipts, but could increase receipts more than \$8.0 million in FY 1996.

### Receipts Compared to REC Estimate

The April REC FY 1995 estimate of 4.8% was exceeded by 0.9 percentage points. This translates into total receipts of \$4.154 billion, which is \$35.4 million more than was forecast by the last REC.

As has been the case in past years, corporate income tax continued to supply most of the forecast error. For special taxes, the last REC estimate was exceeded by \$23.2 million. The error in the corporate income tax estimate was \$15.5 million (66.8%) of this amount, even though total corporate income tax receipts accounted for only 6.9% of total special taxes.

For non-tax revenues, racing and gaming receipts supplied most of the forecast error. Racing and gaming receipts exceeded the April REC estimate by \$7.3 million, which is 60.0% of the total forecast error of \$12.2 million for all non-tax revenues.

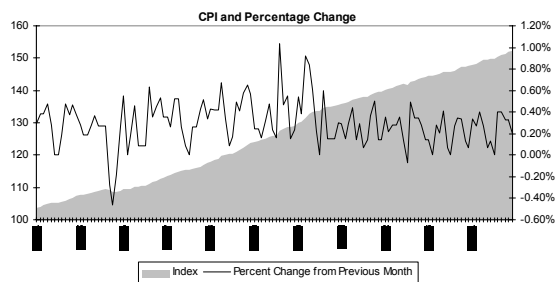
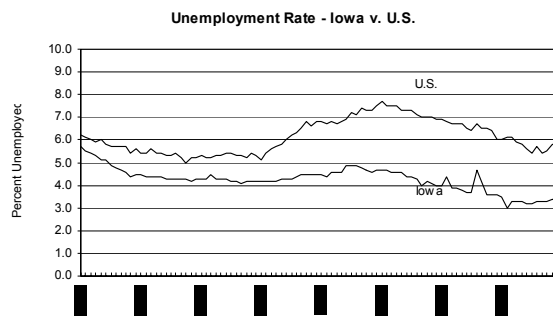
## Obligations

School aid payments are to be paid in monthly installments, subject to the cash position of the State. All payments for FY 1995 have been made on schedule.

## Status of the Economy

The seasonally adjusted percent unemployed for the State decreased one tenth of a percentage point to 3.3% in May, but the Department of Employment Services reported that job growth was somewhat weaker than it has been, particularly in the durable goods manufacturing sector. The U.S. unemployment rate decreased one-tenth of a percentage point to 5.7% in May, but job losses in manufacturing and construction are a cause of continued concern.

Consumer prices in May increased 0.2 % due to increases in the price of medical care and transportation costs. The Consumer Price Index (CPI) through May 1995 was 152.2 (1983=100), which is 3.2% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through May 1995.



We will be mailing special tax and economic performance reports on a monthly basis. Feel free to contact us for additional information or if you feel the report needs clarification.

GENERAL FUND RECEIPTS - PREVIOUS COMPARED TO CURRENT PERIOD					ESTIMATED GENERAL FUND RECEIPTS in millions of dollars			
July 1, 1994, through June 30, 1995, in thousands of dollars					FY 94 Actual Compared to FY 95 REC Estimate			
	FY 1994	FY 1995	Year to Date % CHANGE	Jun % CHANGE	Actual FY 1994	Estimate FY 1995	% CHANGE	
Personal Income Tax	\$ 1,784,924.8	\$ 1,875,023.8	5.0%	2.3%	\$ 1,784.9	\$ 1,855.9	4.0%	
Sales Tax	1,110,117.3	1,147,267.4	3.3%	6.4%	1,110.1	1,158.5	4.4%	
Use Tax	175,089.9	196,040.7	12.0%	13.9%	175.1	193.8	10.7%	
Corporate Income Tax	220,769.5	268,700.3	21.7%	16.9%	220.8	253.2	14.7%	
Inheritance Tax	88,146.5	89,224.3	1.2%	-9.3%	88.1	92.2	4.6%	
Insurance Premium Tax	103,326.9	102,057.7	-1.2%	-7.8%	103.3	98.7	-4.5%	
Cigarette Tax	91,606.8	93,273.6	1.8%	2.1%	91.6	93.6	2.2%	
Tobacco Tax	4,595.0	5,050.6	9.9%	14.5%	4.6	5.0	8.8%	
Beer Tax	12,477.3	12,428.6	-0.4%	-0.5%	12.5	12.6	1.0%	
Franchise Tax	34,051.7	28,905.5	-15.1%	-25.6%	34.1	31.4	-7.8%	
Miscellaneous Tax	1,130.8	996.4	-11.9%	255.2%	1.1	0.9	-20.4%	
Total Special Taxes	\$ 3,626,236.5	\$ 3,818,968.9	5.3%	3.4%	\$ 3,626.2	\$ 3,795.8	4.7%	
Institutional Payments	105,503.0	107,379.1	1.8%	-13.8%	105.5	106.8	1.2%	
Liquor Transfers:								
Profits	25,500.0	26,352.0	3.3%	11.7%	25.5	25.4	-0.4%	
7% Gross Revenue	9,000.0	9,000.0	0.0%	0.0%	9.0	9.0	0.0%	
Interest	7,909.4	17,335.0	119.2%	154.6%	7.9	17.0	114.9%	
Fees	55,630.3	57,308.7	3.0%	-9.7%	55.6	55.3	-0.6%	
Judicial Revenue	43,632.7	48,435.6	11.0%	27.3%	43.6	48.1	10.2%	
Miscellaneous Receipts	47,700.0	40,717.3	-14.6%	-71.4%	47.7	40.0	-16.1%	
Racing and Gaming Receipt:	10,204.6	28,497.5	179.3%	168.0%	10.2	21.2	107.7%	
TOTAL RECEIPTS	\$ 3,931,316.5	\$ 4,153,994.1	5.7%	2.9%	\$ 3,931.3	\$ 4,118.6	4.8%	